The regular meeting of the Council of the City of Martinsville, Virginia, was held on November 10, 2015, in Council Chambers, Municipal Building, at 7:30 PM, Closed Session beginning at 7:00pm, with Mayor Danny Turner presiding. Council Members present included: Mayor Danny Turner, Vice Mayor Jennifer Bowles, Gene Teague, Sharon Brooks Hodge, and Mark Stroud. Staff present included: City Manager Leon Towarnicki, Clerk of Council Karen Roberts, City Attorney Eric Monday, Finance Director Linda Conover, Director of Utilities Dennis Bowles, Superintendent of Electric Operations Durwin Joyce, Budget Analyst Mary Prillaman, Community Planner Susan McCulloch, and Police Chief Sean Dunn.

Mayor Turner called the meeting to order and advised Council will go into Closed Session. In accordance with Section 2.1-344 (A) of the Code of Virginia (1950, and as amended) and upon a motion by Council Member Stroud, seconded by Council Member Hodge, with the following 5-0 recorded vote: Turner, aye; Teague, aye; Hodge, aye; Stroud, aye; and Bowles, aye, Council convened in Closed Session, for the purpose of discussing the following matters:(A) Appointments to Boards and Commissions as authorized by Subsection 1.and (B)Consultation with legal counsel and briefings by staff members, attorneys or consultants pertaining to actual or probable litigation, or other specific legal matters requiring the provision of legal advice by such counsel, as authorized by Subsection 7. At the conclusion of Closed Session, each returning member of Council certified that (1) only public business matters exempt from open meeting requirements were discussed in said Closed Session; and (2) only those business matters identified in the motion convening the Closed Session were heard, discussed, or considered during the Session. On a motion by Council Member Teague, seconded by Council Member Hodge, with the following recorded 5-0 vote: Stroud, aye; Turner, aye; Bowles, aye; Teague, aye; Hodge, Council returned to Open Session.

Council Member Teague made a motion to appoint Kris Shrader to the Western Virginia Emergency Medical Services Council, term expiring December 31, 2018; Council Member Stroud seconded the motion. All members voted in favor.

Following the invocation by Vice Mayor Bowles and Pledge to the American Flag, Mayor Turner welcomed everyone to the meeting.

Consider setting two public hearings regarding an application for a Zoning Text Amendment and Special Use Permit from McGuireWoods, LLP on behalf of BVI Martinsville, (BVI) LLC – Susan McCulloch explained the petition for a Zoning Text Amendment and an application for a SUP submitted by McGuireWoods, LLP on behalf of BVI Martinsville, LLC and BVI to operate a bidding fee auction facility as part of a mixed use commercial development in Uptown Martinsville. The Planning Commission voted unanimously to deny the application and permit and asked that Council hold a public hearing. Council Member Teague made a

motion to set two public hearings on November 24, 2015 to hear public input regarding an application for a Zoning Text Amendment and a Special Use Permit unless the applicants

request a different date, Vice Mayor Bowles seconded the motion. Council Member Hodge requested that the hearings not be held on Thanksgiving week. Council members discussed whether it would be in the best interest of the applicants and the public to postpone the hearings until December. Teague suggested Council hold the public hearings on November 24, 2015 and if they feel that there was not a substantial response then they can hold another hearing on December 8, 2015. All Council members voted in favor.

Minutes: On a motion by Council Member Hodge, seconded by Vice Mayor Bowles, with a 5-0 vote, Council approved the minutes of the October 16 and 17, 2015 Work Session and October 26, 2015 Neighborhood Meeting.

Hear public input on the City's proposed meter and lighting replacement project – City Manager Towarnicki summarized the progress of the project proposal, stating that the City recognized the need to replace water meters five to seven years ago. The City recognized that if they went with a conventional meter replacement that the life of the meters would only be another twenty years so the City began to look at other options including self-funding projects. Johnson Controls was chosen as the organization to move forward with a performance contract on the water meter project. The project would also include converting street lights to LED lighting which would also be part of the self-funding project. Financing was looked at and at the previous meeting a lease purchase option with US Bank was approved by Council members. The new meter replacements offer several updated options including leak detection and online customer inquiry. Mayor Turner said residents have expressed concern about what information the government can obtain from the new meter replacement. Dennis Bowles explained that should not be a concern and that the meters could be read from a central location. The intent is to read the meters quicker, to get better response in case of high consumption or potential leaks and quicker billing cycles. Towarnicki said on the electric side the system can detect exactly where an outage is located. Bowles said that there would be an automatic connect and disconnect option as well. Turner opened the floor to anyone who would like to offer input. No one approached the podium.

Consider adoption of a resolution approving lease purchase financing for the City's meter and lighting replacement project – City Manager Towarnicki explained the resolution to approve the lease purchase financing for the City's meter and lighting replacement project. Bowles made a motion to approve the resolution with US Bank, Hodge seconded the motion, all Council members voted in favor.

RESOLUTION OF CITY COUNCIL OF THE CITY OF MARTINSVILLE APPROVING LEASE PURCHASE FINANCING

WHEREAS, the City Council of the City of Martinsville **(the "City Council")** has determined (i) that a true and very real need exists for the acquisition, construction, renovation and equipping of utility improvements and energy saving improvements to City facilities, including utility meter improvements and street light replacements, all for municipal purposes **(the "Improvements")** described in the Lease Agreement (as hereinafter defined), all pursuant to a Performance Contract **(the "Performance Contract")** between the City Council and Johnson Controls, Inc.; (ii) that the Improvements are essential to the governmental functions of the City of Martinsville, Virginia **(the "City")**; and (iii) that it reasonably expects the Improvements to continue to be essential to the governmental functions of the City for a period not less than the term of the Lease Agreement; and

WHEREAS, the City Council has taken the necessary steps under the Procurement Act of the Code of Virginia, 1950, as amended, to acquire the Improvements; and

WHEREAS, the City Council proposes to enter into a Master Tax-Exempt Lease/Purchase Agreement, including Property Schedule No. 1 and exhibits, in the aggregate principal amount not to exceed $7,425,000 **(together, the "Lease Agreement")** with U.S. Bancorp Government Leasing and Finance, Inc. **(the "Lessor")** to finance the purchase of the Improvements over approximately sixteen and one-quarter (16¼) years, such Lease Agreement being substantially in the form presented to this meeting; and

WHEREAS, (i) all amounts payable by the City under the Lease Agreement **(the "Lease Obligations")** are subject to appropriation by the City Council; (ii) the City Council is not under any obligation to make any appropriation with respect to the Lease Agreement; (iii) the Lease Agreement is not a general obligation of the City or a charge against the general credit or taxing power of the City; and (iv) amounts payable by the City under the Lease Agreement do not constitute a debt of the City within the meaning of any constitutional, charter or statutory limitation; and

WHEREAS, the Lessor requires as a condition of this financing that the city enter into an Escrow Agreement with U.S. Bank National Association **(the "Escrow Agreement")** governing the use and application of proceeds of the Lease Agreement; and

WHEREAS, the City Council reasonably anticipates that it and its subordinate entities will not issue tax-exempt obligations in the face amount of more than $10,000,000 during the current calendar year; and

WHEREAS, the City Council desires to designate the Lease Agreement as a "qualified tax-exempt obligation" under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended **(the "Code")**;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF MARTINSVILLE, VIRGINIA, THAT:

1. The City Council hereby accepts the proposal of U.S. Bancorp Government Leasing and Finance, Inc. dated October 9, 2015, as it may be modified, for the lease financing of the Improvements on the terms set forth therein, with a term of approximately sixteen and one quarter (16 ¼) years, an aggregate principal component of Lease Obligations thereunder not to exceed $7,425,000 and the interest cost of the interest component of Lease Obligations thereunder not to exceed 2.47% per annum (excluding applicable default or event of taxability rates under the provisions of the Lease Agreement).

2. It is hereby found and determined that the terms of the Lease Agreement and the Escrow Agreement **(together, the "Documents")** in the forms presented to this meeting are in the best interests of the City for the acquisition and installation of the Improvements.

3. The Documents and related financing documents are hereby approved in substantially the forms presented to this meeting. The Mayor, Vice-Mayor, City Manager and any officer of the City who shall have power generally to execute contracts on behalf of the City **(collectively, the "City Officers")** be, and each of them hereby is, authorized to execute, acknowledge and deliver the Documents and related financing documents with any changes, insertions and omissions therein as may be approved by the individuals executing the Documents and such documents, such approval to be conclusively evidenced by the execution and delivery thereof.

4. The same City Officers be, and each of them hereby is, authorized and directed to execute and deliver any and all other agreements, financing statements, papers, instruments, opinions, certificates, affidavits and other documents and to do or cause to be done any and all other acts and things necessary or proper for carrying out the purposes and intents of this resolution and the Lease Agreement.

5. The approvals set forth in this Resolution to enter into the Lease Agreement are subject to and contingent upon the Performance Contract being entered into by the City and Johnson Controls, Inc.

6. The City Council hereby designates the Lease Agreement as a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Code and represents and covenants that not more than $10,000,000 in bonds, notes, leases and other obligations of the City (including any subordinate issuing entities), excluding private activity bonds, will be issued in calendar year 2015 and that neither the City Council nor any subordinate entity thereof will designate more than $10,000,000 of "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

7. The City Council covenants that it shall not take or omit to take any action the taking or omission of which will cause the Lease Obligations to be "arbitrage bonds" within the meaning of Section 148 of the Code, or otherwise cause interest on the Lease Obligations derived from the interest component of rental payments made by the City Council under the

Lease Agreement to be includable in the gross income for Federal income tax purposes of the registered owners thereof under existing law. Without limiting the generality of the foregoing, the City Council shall comply with any provision of law that may require it at any time to rebate to the United States any part of the earnings derived from the investment of the gross proceeds of the Lease Agreement.

8. The City Council further covenants that it shall not permit the proceeds of the Lease Obligations to be used in any manner that would result in (a) 10% or more of such proceeds being used in a trade or business carried on by any person other than a governmental unit, as provided in Section 141(b) of the Code, provided that no more than 5% of such proceeds may be used in a trade or business unrelated to the City Council's use of the Improvements, (b) 5% or more of such proceeds being used with respect to any "output facility" (other than a facility for the furnishing of water), within the meaning of Section 141(b)(4) of the Code, or (c) 5% or more of such proceeds being used directly or indirectly to make or finance loans to any persons other than a governmental unit, as provided in Section 141(c) of the Code; provided, however, that if the City Council receives an opinion of nationally recognized bond counsel that any such covenants need not be complied with to prevent the interest component of the Lease Obligations from being includable in the gross income for Federal income tax purposes of the registered owner thereof under existing law, the City Council need not comply with such covenants.

9. The City Council hereby declares, in accordance with U.S. Treasury Regulation Section 1.150-2, as amended from time to time, the City Council's intent to reimburse the City Council with the proceeds of the Lease Agreement for expenditures with respect to the Improvements **(the "Expenditures")** made no more than 60 days prior to the date hereof. The City Council reasonably expects on the date hereof that it will reimburse the Expenditures with the proceeds of the Lease Agreement. Each Expenditure was and will be either (a) of a type properly chargeable to a capital account under general federal income tax principles (determined in each case as of the date of the Expenditures), (b) a cost of issuance with respect to the Lease Obligations, (c) a nonrecurring item that is not customarily payable from current revenues, or (d) a grant to a party that is not related to or an agent of the City Council so long as such grant does not impose any obligation or condition (directly or indirectly) to repay any amount to or for the benefit of the City Council. The maximum principal amount of the Lease Obligations expected to be issued for the Improvements is $7,425,000. The City Council will make a reimbursement allocation, which is a written allocation by the City Council that evidences the City Council's use of proceeds of the Lease Obligations to reimburse an Expenditure, no later than 18 months after the later of the date on which the Expenditure is paid or the Improvements are placed in service or abandoned, but in no event more than three years after the date on which the Expenditure is paid. The City Council recognizes that exceptions are available for certain "preliminary expenditures," costs of issuance, certain de minimis amounts, expenditures by "small issuers" (based on the year of issuance and not the year of expenditure) and expenditures for construction projects of at least 5 years.

10. The recitals to this resolution are hereby incorporated by reference and are declared to be findings of the City Council in connection with its decision to acquire, install and finance the Improvements.

11. Nothing in this Resolution, the Documents or other related documents shall constitute a debt or pledge of the faith and credit of the city, and the City shall not be obligated to make any payments under the documents except from funds that may be appropriated by the City Council.

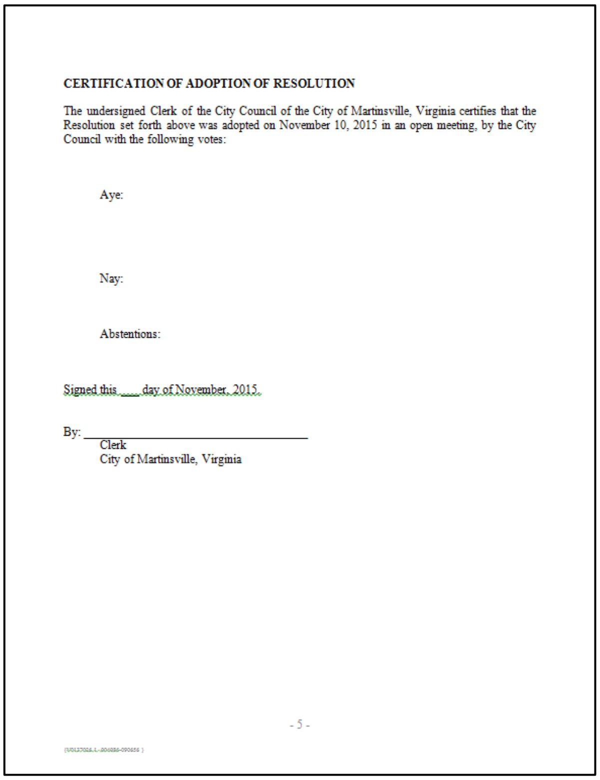
12. All acts of the officers, agents, and representatives of the city that are in conformity with the purposes and intent of this Resolution and in furtherance of the acquisition of the Improvements are hereby approved, ratified and confirmed.

13. Any authorization herein to execute a document shall include authorization to deliver it to the other parties thereto, to record such document where appropriate and to pay from City funds all appropriate filing fees, taxes and related charges.

14. The Post-Issuance Compliance Procedures for Tax Exempt financing adopted by the City on January 10, 2012 as procedures to monitor the requirements of Section 148 of the Code and to ensure remediation of nonqualified borrowing are recognized as applicable to the Lease Agreement.

15. This resolution shall be effective immediately upon its adoption.

Date of Adoption: November 10, 2015.



CERTIFICATION OF ADOPTION OF RESOLUTION

The undersigned Clerk of the City Council of the City of Martinsville, Virginia certifies that the Resolution set forth above was adopted on November 10, 2015 in an open meeting, by the City Council with the following votes:

Aye:

Nay:

Abstentions:

Signed this ____ day of November, 2015.

By: ______________________________
Clerk
City of Martinsville, Virginia

- 5 -

<u>Hear public hearing on FAHI proposal for possible use of former City of Martinsville Housing Office located at 605 Fourth Street</u> – City Manager Towarnicki summarized the previous FAHI proposal. His recommendation would be for the City to lease the building to FAHI short-term. Stroud suggested a possible 18 month lease, Hodge said she would consider a shorter 6 month lease with the option to renew. Mayor Turner opened the floor to public comment. Faye Holland of FAHI said that her biggest concern about the lease is that Council should discuss those details with FAHI in advance to give them some idea of the lease amount. Vice Mayor Bowles made a motion for the City Manager to begin working on the new lease, Council Member Hodge seconded the motion. Hodge requested that the City Manager and City Attorney consider her suggestion of a minimal lease total and terms with the option to monitor how successful FAHI has been with fundraising to cover costs. All Council Members voted in favor.

<u>Presentation on possible solar project</u> – City Manager Towarnicki explained that the City had been looking at a possible solar project in the City for several months and requested proposals from several organizations. Turning Point Energy presented a promising proposal. A key issue for Council to take into consideration would be that the City is limited to industrial locations and whether they would want to contract use for this solar project at a potential industrial site. Towarnicki introduced Garrett Cole and Ryan Johnson of GDS who explained the solar proposal solicitation along with a project draft timeline, proposed project locations, and projected cost vs. market comparison. Turning Point Energy would be responsible for maintaining the facility including maintenance, purchases, tax credits, etc. Mayor Turner asked if the panels would cause problems for residents related to heat or

reflections, Mr. Johnson said that the panels would not cause any of those problems and that there would be no issue of noise either. He said the biggest resident concern could be the appearance of the panels. Teague recommended that Council pass on the project because the City would be giving up a lot of land for a project that seems to show little return for the City. Hodge said she would like to consider at least one of the two proposed sites. Turner and Stroud agreed with Hodge.

City of Martinsville

Overview of the TurningPoint Energy Solar Project

November 10, 2015

1

Martinsville Solar Proposal Solicitation

- Martinsville received solar proposals from 7 different entities with multiple options including:
  - Fixed-Tilt and Single-Axis Tracking solar panel technologies
  - Long-term Power Purchase Agreements ("PPAs") ranging from 20-30 years
- A 30% Federal Investment Tax Credit ("ITC") for solar plants is scheduled to be reduced to 10% beginning January 1, 2017
  - In order to take advantage of the 30% ITC, a solar plant would need to reach commercial operation by December 31, 2016
  - Solar costs are expected to increase post-2016

2

Solar Project Draft Timeline

2015	
November Open Session Council Meeting	**November 10**
• Select Solar Developer	
• Select Site(s)	
PPA Negotiation Complete	**December 31**
2016	
Land Due Diligence, Permitting, Zoning (if required)	**First Quarter**
Construction Start; Interconnection Delivery Date	**June 1**
Construction Complete (Anticipated COD)	**October 1**
Guaranteed Commercial Operation Date	**December 1**
Federal ITC Deadline	**December 31**

3

Term Sheet Discussions

- Draft term sheets were distributed to top 3 bidders based on economics
- Agreement on terms will allow PPA negotiations to move quickly
- Discussions centered on the following items:
  - Up-front Securitization (risk of losing 20% of capital costs due to ITC deadline)
  - Developer willing to take ownership of property due diligence, permitting and zoning schedule and cost risk
  - Interconnection schedule
  - Guaranteed generation output from facility

4

TurningPoint Energy Solar Proposal

- **Pricing:** Flat PPA rates shown with escalating rates to be provided
- **Term:** 25 years with right to extend additional 5 years with no effect on price; option to purchase 100% of project in year 6, 10 and end of PPA
- **Technology:** 315W solar panels, single-axis trackers and string inverters
- **Solar Renewable Energy Credits:** City retains SRECs after year 10

Proposal	Site Capacity (AC MW)	Capacity Factor (%)	Annual Energy (MWh)	Flat PPA Rate ($/MWh)
Martinsville Rives Road Only	1.25 (reduced size)	27.1%	2,972	$73.30
Martinsville Clearview Only	0.80	25.7%	1,801	$79.20
Martinsville + Other Sites	8.05	23.0%	16,239	$71.10

* Proposal costs do not include land cost (if any), property taxes, sales and use taxes, or interconnection upgrade costs

5

Rives Road Industrial Park

Property Details

- Industrial Zoned Acreage: 42.55
- Adjacent to rail, sewer, and 12 kV distribution line

Tax Revenues (As Is)

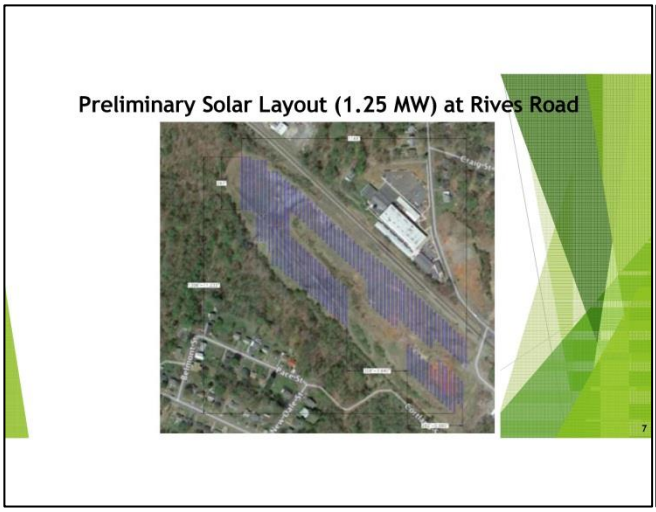
- Current assessed real estate tax value: $396,500
- FY 2016 tax revenues of $4,211.23 (or $1.0621 per $100 of assessed value)

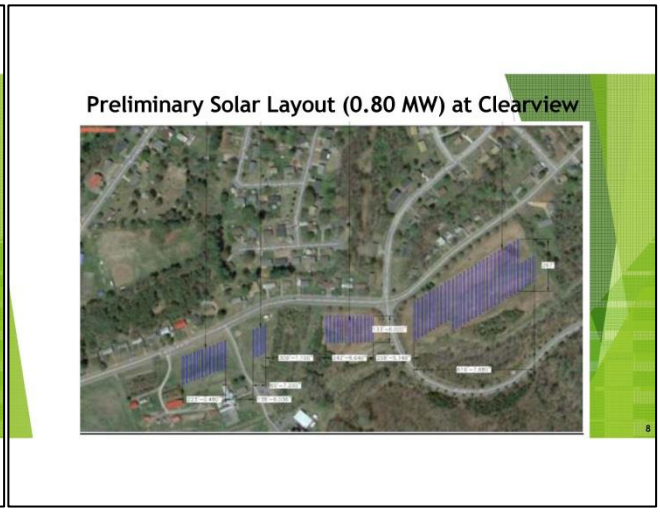
Tax Revenues (with 1.25 MW solar farm)

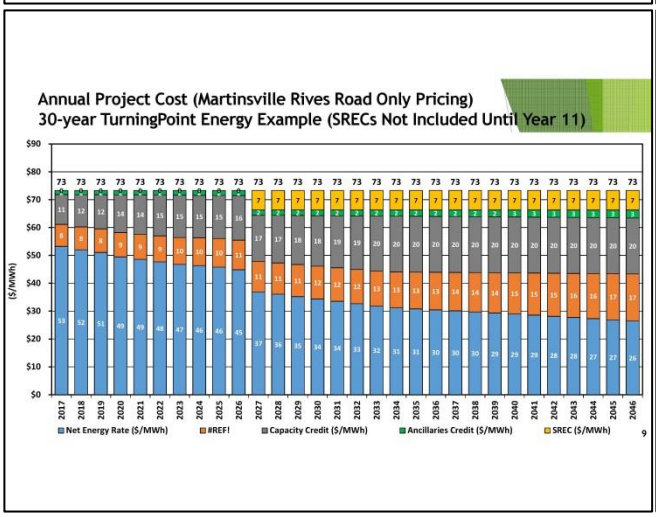
- Solar equipment exempted from taxation in Virginia
- Subject to same real estate taxes or $4,211.23
- Virginia sales and use tax (5.3% of assessed value) applied only to racking and mounting equipment, conduit and meters; equipment used in "manufacture" of solar electricity exempted from taxation
- Minimal additional tax revenue

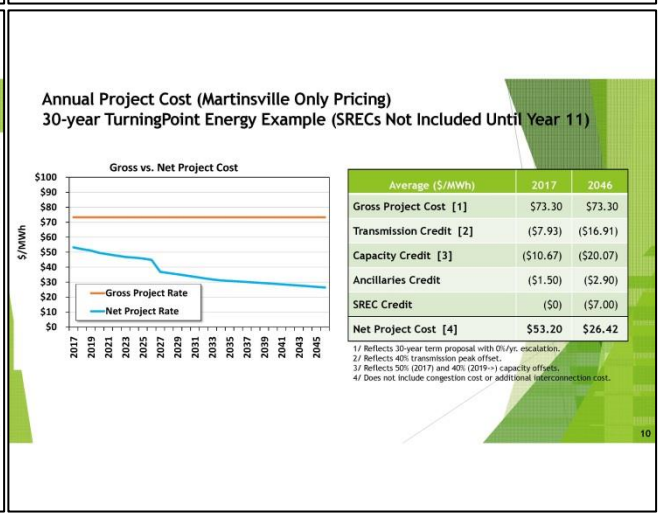
Validated with the Henry County property tax assessor's office, Martinsville Commissioner of Revenue and Virginia Department of Taxation

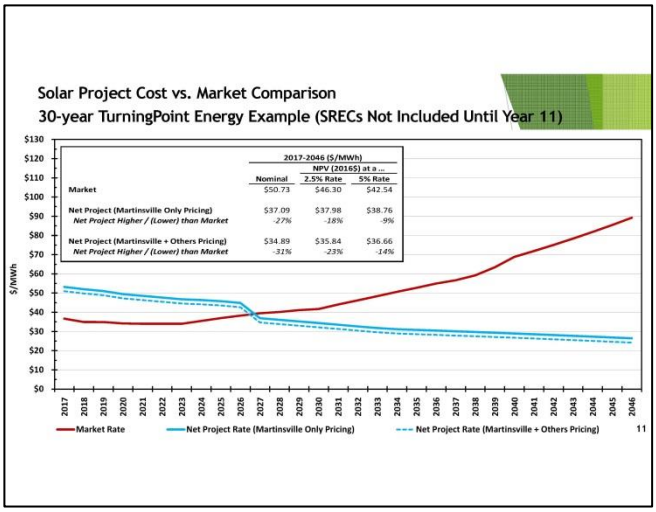
6



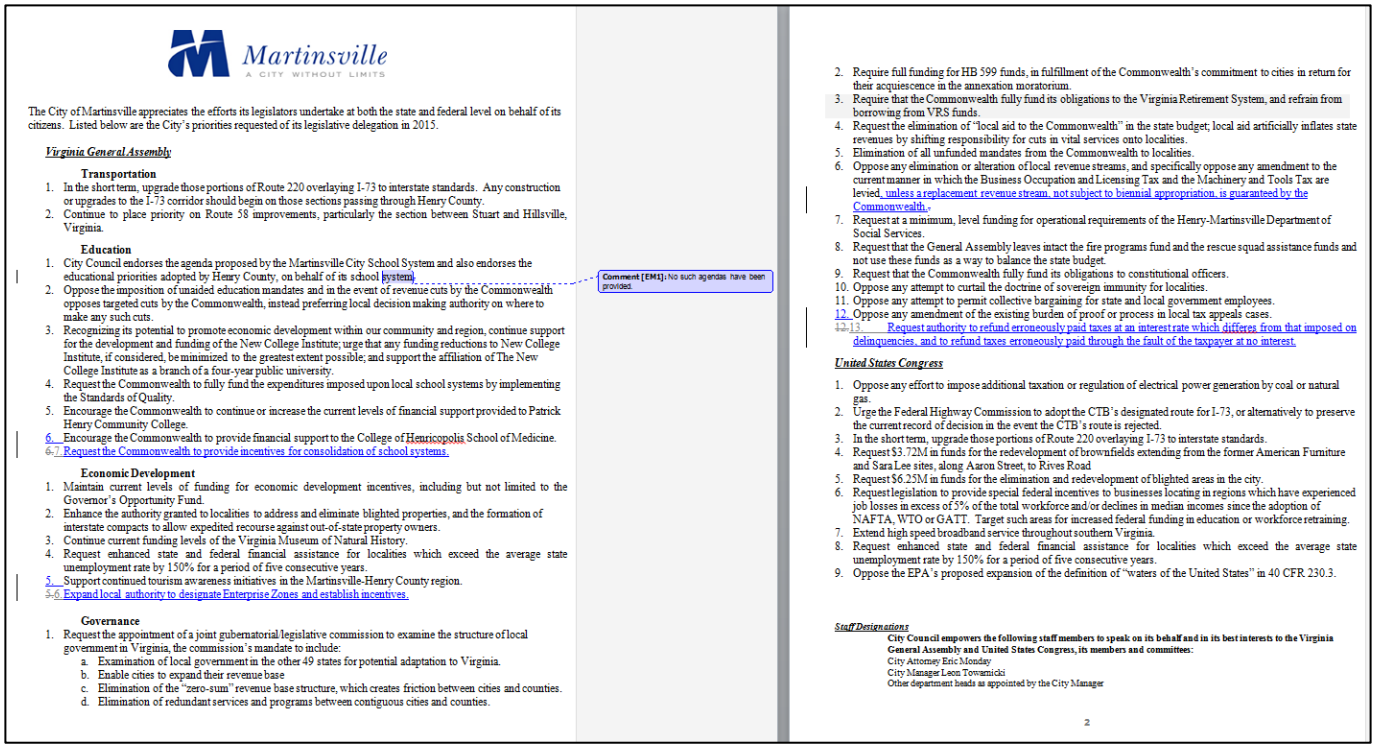








Discussion of 2016 legislative agenda – City Attorney Monday stated that the legislative agenda would not need a final approval at tonight's meeting. Changes are marked on the legislative agenda in red. Teague requested legislation on Item 13. Monday stated that he had a meeting with Senator Stanley on Thursday and would bring that up.



Martinsville
A CITY WITHOUT LIMITS

The City of Martinsville appreciates the efforts its legislators undertake at both the state and federal level on behalf of its citizens. Listed below are the City's priorities requested of its legislative delegation in 2015.

Virginia General Assembly

Transportation

1. In the short term, upgrade those portions of Route 220 overlaying I-73 to interstate standards. Any construction or upgrades to the I-73 corridor should begin on those sections passing through Henry County.
2. Continue to place priority on Route 58 improvements, particularly the section between Stuart and Hillsville, Virginia.

Education

1. City Council endorses the agenda proposed by the Martinsville City School System and also endorses the educational priorities adopted by Henry County, on behalf of its school system.
2. Oppose the imposition of unaided education mandates and in the event of revenue cuts by the Commonwealth opposes targeted cuts by the Commonwealth, instead preferring local decision making authority on where to make any such cuts.
3. Recognizing its potential to promote economic development within our community and region, continue support for the development and funding of the New College Institute; urge that any funding reductions to New College Institute, if considered, be minimized to the greatest extent possible; and support the affiliation of The New College Institute as a branch of a four-year public university.
4. Request the Commonwealth to fully fund the expenditures imposed upon local school systems by implementing the Standards of Quality.
5. Encourage the Commonwealth to continue or increase the current levels of financial support provided to Patrick Henry Community College.

6. Encourage the Commonwealth to provide financial support to the College of Henricopolis School of Medicine.

~~6.~~ 7. Request the Commonwealth to provide incentives for consolidation of school systems.

Comment [EM1]: No such agendas have been provided.

Economic Development

1. Maintain current levels of funding for economic development incentives, including but not limited to the Governor's Opportunity Fund.
2. Enhance the authority granted to localities to address and eliminate blighted properties, and the formation of interstate compacts to allow expedited recourse against out-of-state property owners.
3. Continue current funding levels of the Virginia Museum of Natural History.
4. Request enhanced state and federal financial assistance for localities which exceed the average state unemployment rate by 150% for a period of five consecutive years.

5. Support continued tourism awareness initiatives in the Martinsville-Henry County region.

~~5.~~ 6. Expand local authority to designate Enterprise Zones and establish incentives.

Governance

1. Request the appointment of a joint gubernatorial legislative commission to examine the structure of local government in Virginia, the commission's mandate to include:
   a. Examination of local government in the other 49 states for potential adaptation to Virginia.
   b. Enable cities to expand their revenue base
   c. Elimination of the "zero-sum" revenue base structure, which creates friction between cities and counties.
   d. Elimination of redundant services and programs between contiguous cities and counties.
2. Require full funding for HB 599 funds, in fulfillment of the Commonwealth's commitment to cities in return for their acquiescence in the annexation moratorium.
3. Require that the Commonwealth fully fund its obligations to the Virginia Retirement System, and refrain from borrowing from VRS funds.
4. Request the elimination of "local aid to the Commonwealth" in the state budget; local aid artificially inflates state revenues by shifting responsibility for cuts in vital services onto localities.
5. Elimination of all unfunded mandates from the Commonwealth to localities.
6. Oppose any elimination or alteration of local revenue streams, and specifically oppose any amendment to the current manner in which the Business Occupation and Licensing Tax and the Machinery and Tools Tax are levied, unless a replacement revenue stream, not subject to biennial appropriation, is guaranteed by the Commonwealth.
7. Request at a minimum, level funding for operational requirements of the Henry-Martinsville Department of Social Services.
8. Request that the General Assembly leaves intact the fire programs fund and the rescue squad assistance funds and not use these funds as a way to balance the state budget.
9. Request that the Commonwealth fully fund its obligations to constitutional officers.
10. Oppose any attempt to curtail the doctrine of sovereign immunity for localities.
11. Oppose any attempt to permit collective bargaining for state and local government employees.
12. Oppose any amendment of the existing burden of proof or process in local tax appeals cases.

~~12.~~ 13. Request authority to refund erroneously paid taxes at an interest rate which differes from that imposed on delinquencies, and to refund taxes erroneously paid through the fault of the taxpayer at no interest.

United States Congress

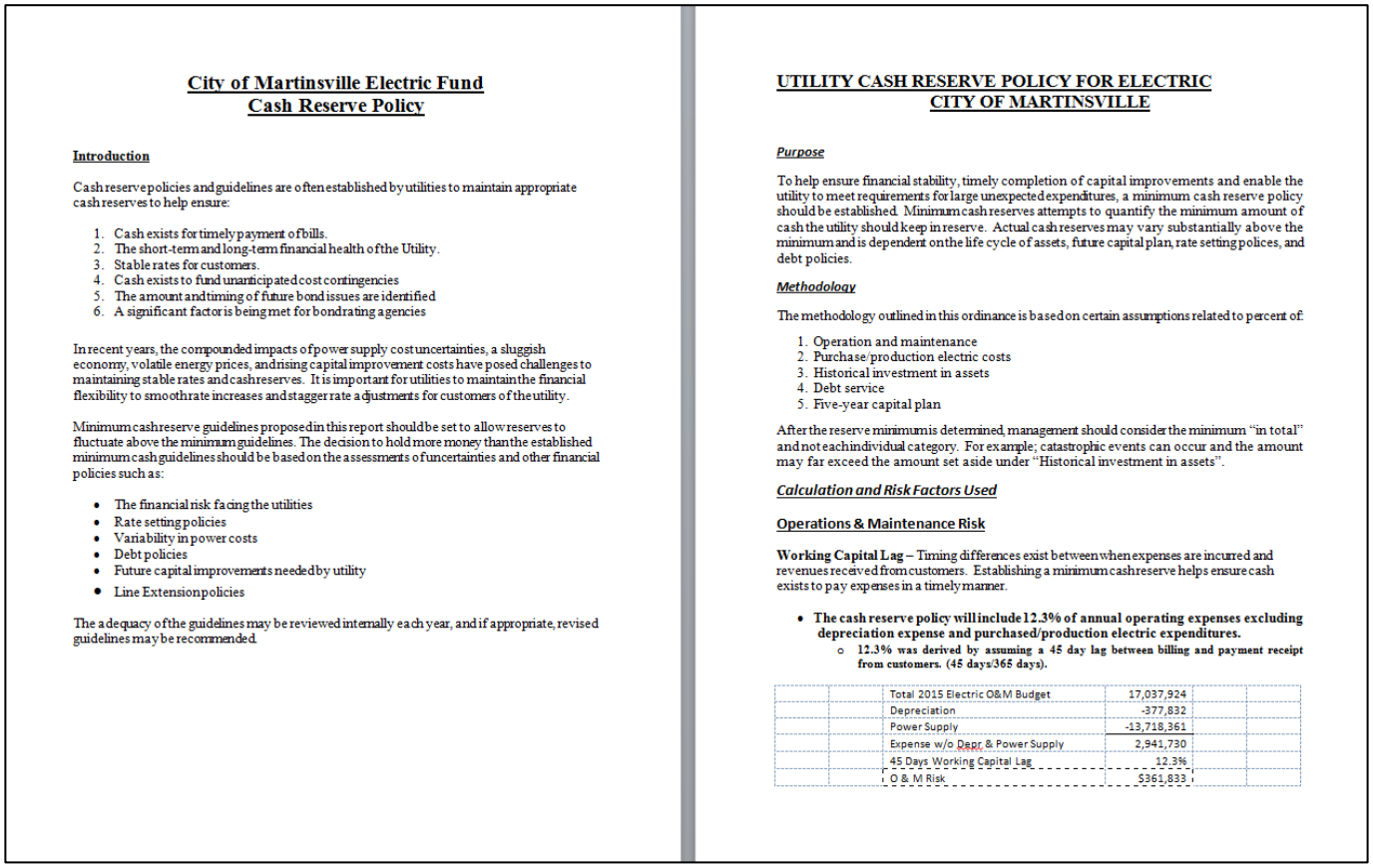
1. Oppose any effort to impose additional taxation or regulation of electrical power generation by coal or natural gas.
2. Urge the Federal Highway Commission to adopt the CTB's designated route for I-73, or alternatively to preserve the current record of decision in the event the CTB's route is rejected.
3. In the short term, upgrade those portions of Route 220 overlaying I-73 to interstate standards.
4. Request $3.72M in funds for the redevelopment of brownfields extending from the former American Furniture and Sara Lee sites, along Aaron Street, to Rives Road
5. Request $6.25M in funds for the elimination and redevelopment of blighted areas in the city.
6. Request legislation to provide special federal incentives to businesses locating in regions which have experienced job losses in excess of 5% of the total workforce and/or declines in median incomes since the adoption of NAFTA, WTO or GATT. Target such areas for increased federal funding in education or workforce retraining.
7. Extend high speed broadband service throughout southern Virginia.
8. Request enhanced state and federal financial assistance for localities which exceed the average state unemployment rate by 150% for a period of five consecutive years.
9. Oppose the EPA's proposed expansion of the definition of "waters of the United States" in 40 CFR 230.3.

Staff Designations

City Council empowers the following staff members to speak on its behalf and in its best interests to the Virginia General Assembly and United States Congress, its members and committees:
City Attorney Eric Monday
City Manager Leon Towarnicki
Other department heads as appointed by the City Manager

2

Adopt Utility Fund Cash Reserve policies – Linda Conover summarized the request for adoption of the Utility Fund Cash Reserve policies for electric, refuse, sewer, water and telecommunications. Bowles made a motion to adopt the Cash Reserve policies, Stroud seconded the motion, all Council members voted in favor.



City of Martinsville Electric Fund
Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of power supply cost uncertainties, a sluggish economy, volatile energy prices, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in power costs
- Debt policies
- Future capital improvements needed by utility
- Line Extension policies

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

UTILITY CASH RESERVE POLICY FOR ELECTRIC CITY OF MARTINSVILLE

Purpose

To help ensure financial stability, timely completion of capital improvements and enable the utility to meet requirements for large unexpected expenditures, a minimum cash reserve policy should be established. Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve. Actual cash reserves may vary substantially above the minimum and is dependent on the life cycle of assets, future capital plan, rate setting polices, and debt policies.

Methodology

The methodology outlined in this ordinance is based on certain assumptions related to percent of:

1. Operation and maintenance
2. Purchase/production electric costs
3. Historical investment in assets
4. Debt service
5. Five-year capital plan

After the reserve minimum is determined, management should consider the minimum "in total" and not each individual category. For example; catastrophic events can occur and the amount may far exceed the amount set aside under "Historical investment in assets".

Calculation and Risk Factors Used

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense and purchased/production electric expenditures.**
  - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Electric O&M Budget	17,037,924
Depreciation	-377,832
Power Supply	-13,718,361
Expense w/o Depr & Power Supply	2,941,730
45 Days Working Capital Lag	12.3%
O & M Risk	$361,833

Power Supply Risk

Max Month – The peak month power supply was used in the cash reserve calculation. This represents 9.7% of the total yearly power supply.

- **The cash reserve policy will include the max month or 9.7% of annual power supply.**
  - **9.7% was derived by dividing the max month power costs by the total budgeted power supply. ($1,325,263/$13,718,361 = 9.7%)**

	Monthly Cost
July	1,328,263
August	1,236,991
September	1,143,886
October	1,073,658
November	1,020,081
December	1,126,238
January	1,173,332
February	1,212,283
March	1,268,575
April	969,741
May	1,194,029
June	971,284
TOTAL:	**13,718,361**

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can takes between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 3% of the historical investment in assets as recorded in the financial statements.**
  - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

  - **The Electric Department's assets are currently depreciated at 70.1%.**

Historical Investment	$32,943,355
Accumulated Depreciation	$23,124,591
Percent Depreciated	70.1%
Risk Associated with Historical Assets	3.0%
Historical Investment Risk	$988,301

Debt Service Risk

Annual debt service – Some debt service payments do not occur evenly throughout the year and often occur every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.

- **The cash reserve policy will include 100% of the current portion of debt service.**

Payment Date	Principal	Interest	Total
7/14/2014	$18,000	$848	$18,848
1/6/2015	$0	$950	$950
Total			$19,798
Highest Payment Risk			100%

Five-Year Capital Plan Risk

Capital improvement program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- **The cash reserve policy will include 20% (1/5th) of the five-year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20	Total
Total Capital Plan	582,000	298,000	298,500	285,000	650,000	2,113,500
Bond Proceeds						
Net	582,000	298,000	298,500	285,000	650,000	2,113,500
						20.0%
Capital Plan Risk						$422,700

Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk "in total" and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under "Historical investment in assets".

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is $3,120,895 as calculated below:

Recommended MINIMUM Reserves	Percent Allocated	Projected 2016
Operation & Maint Less Deprec & Purch Pwr	12.3%	$361,833
Purchase Power	9.7%	$1,328,263
Historical Rate Base	3.0%	$988,301
Current Portion of Debt Service	100.0%	$19,798
5-Year Capital Plan - Net of Bond Proceeds	20.0%	$422,700
Recommended MINIMUM Reserves		$3,120,895

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies. The cash reserve calculation should be updated annually as part of the budget process.

Rev. 10/19/15

City of Martinsville Refuse Fund
Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of cost increases, a sluggish economy, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Debt policies
- Future capital improvements needed by utility
- Line Extension policies

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

Methodology

Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, production costs, historical investment in assets, debt service and the five-year capital plan.

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense.**
  - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Refuse O&M Budget	1,709,327
Depreciation	-172,361
Expense w/o Depreciation	1,536,966
45 Days Working Capital Lag	12.3%
O & M Risk	$189,047

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can takes between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 3% of the historical investment in assets as recorded in the financial statements.**
  - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

  - **The Refuse Department's assets are currently depreciated at 46.2% as calculated below:**

Historical Investment	$4,713,844
Accumulated Depreciation	$2,179,346
Percent Depreciated	46.2%
Risk Associated with Historical Assets	1.0%
Historical Investment Risk	$47,138

Debt Service Risk

Annual debt service – Some debt service payments do not occur evenly throughout the year and often occur every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.

- **The cash reserve policy will include 100% of the current portion of debt service.**

Payment Date	Principal	Interest	Total
July 2014	$332,100	$19,557	$351,657
January 2015	$69,743	$17,695	$87,437
Total			$439,094
Highest Payment Risk			100%

Five-Year Capital Plan Risk

Capital improvement program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- **The cash reserve policy will include 20% (1/5th) of the five-year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20	Total
Total Capital Plan	105,000	75,000	160,000	0	250,000	590,000
Bond Proceeds						
Net	105,000	75,000	160,000	0	250,000	590,000
						20.0%
Capital Plan Risk						$118,000

Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk "in total" and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under "Historical investment in assets".

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is $793,279 as calculated below:

Recommended MINIMUM Reserves	Percent Allocated	Projected 2016
Operation & Maint Less Deprec	12.3%	$189,047
Historical Rate Base	1.0%	$47,138
Current Portion of Debt Service	100.0%	$439,094
5-Year Capital Plan-Net of Bond Proceeds	20.0%	$118,000
Recommended MINIMUM Reserves		$793,279

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies. The cash reserve calculation should be updated annually as part of the budget process.

Rev. 10/20/15

City of Martinsville Sewer Fund
Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of cost increases, a sluggish economy, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in power costs
- Debt policies
- Future capital improvements needed by utility
- Line Extension policies

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

Methodology

Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, production costs, historical investment in assets, debt service and the five-year capital plan.

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense.**
  - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Sewer O&M Budget	3,963,175
Depreciation	-226,088
Expense w/o Depreciation	3,737,087
45 Days Working Capital Lag	12.3%
O & M Risk	$459,662

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can takes between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 3% of the historical investment in assets as recorded in the financial statements.**
  - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

  - **The Sewer Department's assets are currently depreciated at 83.2% as calculated below:**

Historical Investment	$19,570,097
Accumulated Depreciation	$16,283,208
Percent Depreciated	83.2%
Risk Associated with Historical Assets	3.0%
Historical Investment Risk	$587,103

Debt Service Risk

Annual debt service – Some debt service payments do not occur evenly throughout the year and often occur every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.

- **The cash reserve policy will include 100% of the current portion of debt service.**

Payment Date	Principal	Interest	Total
7/29/2014	$0	$1,527	$1,527
1/23/2015	$15,258	$1,527	$16,784
Total			$18,311
Highest Payment Risk			100%

Five-Year Capital Plan Risk

Capital improvement program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- **The cash reserve policy will include 20% (1/5th) of the five-year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20	Total
Total Capital Plan	574,000	670,000	515,000	425,000	470,000	2,654,000
Bond Proceeds						
Net	574,000	670,000	515,000	425,000	470,000	2,654,000
						20.0%
Capital Plan Risk						$530,800

Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk "in total" and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under "Historical investment in assets".

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is $1,595,876 as calculated below:

	Percent Allocated	Projected 2016
Recommended MINIMUM Reserves		
Operation & Maint Less Deprec	12.3%	$459,662
Historical Rate Base	3.0%	$587,103
Current Portion of Debt Service	100.0%	$18,311
5-Year Capital Plan-Net of Bond Proceeds	20.0%	$530,800
Recommended MINIMUM Reserves		$1,595,876

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies. The cash reserve calculation should be updated annually as part of the budget process.

Rev. 10/20/15

City of Martinsville Water Fund
Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of cost increases, a sluggish economy, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in power costs
- Debt policies
- Future capital improvements needed by utility
- Line Extension policies

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

Methodology

Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, production costs, historical investment in assets, debt service and the five-year capital plan.

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense.**
  - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Water O&M Budget	3,017,201
Depreciation	-202,797
Expense w/o Depreciation	2,814,403
45 Days Working Capital Lag	12.3%
O & M Risk	$346,172

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include ice storms, earthquakes, wind storms, floods, or tornadoes. Many of these catastrophic events may allow the utility to recover the cost of damages from FEMA; however FEMA reimbursements can takes between 6 months to 2 years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 3% of the historical investment in assets as recorded in the financial statements.**
  - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

  - **The Water Department's assets are currently depreciated at 71.2% as calculated below:**

Historical Investment	$15,940,573
Accumulated Depreciation	$11,352,568
Percent Depreciated	71.2%
Risk Associated with Historical Assets	3.0%
Historical Investment Risk	$478,217

Debt Service Risk

Annual debt service – Some debt service payments do not occur evenly throughout the year and often occur every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.

- **The cash reserve policy will include 100% of the current portion of debt service.**

Payment Date	Principal	Interest	Total
	$0	$0	$0
	$0	$0	$0
Total			$0
Highest Payment Risk			100%

Five-Year Capital Plan Risk

Capital improvement program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- **The cash reserve policy will include 20% (1/5th) of the five-year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20	Total
Total Capital Plan	689,370	761,000	230,000	250,000	300,000	2,230,370
Bond Proceeds						
Net	689,370	761,000	230,000	250,000	300,000	2,230,370
						20.0%
Capital Plan Risk						$446,074

Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk "in total" and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under "Historical investment in assets".

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is $1,270,463 as calculated below:

	Percent	Projected
Recommended MINIMUM Reserves	Allocated	2016
Operation & Maint Less Deprec	12.3%	$346,172
Historical Rate Base	3.0%	$478,217
Current Portion of Debt Service	100.0%	$0
5-Year Capital Plan-Net of Bond Proceeds	20.0%	$446,074
Recommended MINIMUM Reserves		$1,270,463

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies. The cash reserve calculation should be updated annually as part of the budget process.

Rev. 10/20/15

City of Martinsville Telecommunications Fund Cash Reserve Policy

Introduction

Cash reserve policies and guidelines are often established by utilities to maintain appropriate cash reserves to help ensure:

1. Cash exists for timely payment of bills.
2. The short-term and long-term financial health of the Utility.
3. Stable rates for customers.
4. Cash exists to fund unanticipated cost contingencies
5. The amount and timing of future bond issues are identified
6. A significant factor is being met for bond rating agencies

In recent years, the compounded impacts of cost increases, a sluggish economy, and rising capital improvement costs have posed challenges to maintaining stable rates and cash reserves. It is important for utilities to maintain the financial flexibility to smooth rate increases and stagger rate adjustments for customers of the utility.

Minimum cash reserve guidelines proposed in this report should be set to allow reserves to fluctuate above the minimum guidelines. The decision to hold more money than the established minimum cash guidelines should be based on the assessments of uncertainties and other financial policies such as:

- The financial risk facing the utilities
- Rate setting policies
- Variability in expenses
- Debt policies
- Future capital improvements needed by utility

The adequacy of the guidelines may be reviewed internally each year, and if appropriate, revised guidelines may be recommended.

Methodology

Minimum cash reserves attempts to quantify the minimum amount of cash the utility should keep in reserve, the actual cash reserves may vary substantially above the minimum and is dependent on several risk factors discussed below.

The methodology used in this report is based on certain assumptions related to percent of operation and maintenance, production costs, historical investment in assets, debt service and the five-year capital plan. The utility should adopt the methodology to determine the minimum reserve, not the calculated number. The establishment of minimum cash reserves should consider a number of factors including:

Operations & Maintenance Risk

Working Capital Lag – Timing differences exist between when expenses are incurred and revenues received from customers. Establishing a minimum cash reserve helps ensure cash exists to pay expenses in a timely manner.

- **The cash reserve policy will include 12.3% of annual operating expenses excluding depreciation expense.**
  - **12.3% was derived by assuming a 45 day lag between billing and payment receipt from customers. (45 days/365 days).**

Total 2015 Telecommunications O&M Budget	960,170
Depreciation	0
Expense w/o Depreciation	960,170
45 Days Working Capital Lag	12.3%
O & M Risk	$118,101

Historical Investment Risk

Investment in assets – Catastrophic events may occur that require substantial investments to replace damaged assets. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are often combined with emergency funding from banks or bonding agencies. The percent to the minimum cash reserves are dependent on the age of the assets in service and the level of risk of catastrophic type events.

- **The cash reserve policy will include 1% of the historical investment in assets as recorded in the financial statements.**
  - **The typical range for set aside under this category is 1.0 – 3.0%. The following table will be used to determine the risk factor as assets are added and depreciated:**

Risk Table		
Depreciation Percent	0 - 49%	1.0%
Depreciation Percent	50 - 55%	2.0%
Depreciation Percent	Over 55%	3.0%

  - **The Telecommunications Department's assets are currently depreciated at 46.2% as calculated below:**

Historical Investment	$932,931
Accumulated Depreciation	$0
Percent Depreciated	0.0%
Risk Associated with Historical Assets	1.0%
Historical Investment Risk	$9,329

Debt Service Risk

Annual debt service – Some debt service payments do not occur evenly throughout the year and often occur every six months. The utility has to ensure adequate cash reserves exist to fund the debt service payment when the payment is due.

- **The cash reserve policy should include 50 - 100% of the current portion of debt service, depending on the timing of payments. There is currently no debt in the Telecommunications Department, but a debt line item for future debt issuances should be included in the policy.**

Five-Year Capital Plan Risk

Capital improvement program – Some capital improvements are funded through bond issuances and some through cash reserves. The establishment of a minimum cash reserve level helps to ensure timely replacement or construction of assets.

- **The cash reserve policy will include 20% (1/5th) of the five-year capital improvement program less any improvements funded through the issuance of bonds.**

	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20	Total
Total Capital Plan	250,600	317,875	536,000	339,500	240,000	1,683,975
Bond Proceeds						
Net	250,600	317,875	536,000	339,500	240,000	1,683,975
						20.0%
Capital Plan Risk						$336,795

Minimum Cash Reserve Calculation

The minimum cash reserve calculation considers the risk "in total" and not each individual category. For example: catastrophic events can occur and the amount may far exceed the amount set aside under "Historical investment in assets".

If certain events occur that results in cash reserves falling below the minimum cash reserve levels, the City Council should take action to restore cash reserves to the minimum levels over the subsequent three years. These actions may include a number of options:

1. rate adjustments
2. cost reductions
3. issuance of bonds to fund capital improvement programs
4. modification of the assumptions used to determine the cash reserve levels

Based on 2015 budget expenditures, the proposed recommended minimum cash reserve is $464,225 as calculated below:

	Percent Allocated	Projected 2016
Recommended MINIMUM Reserves		
Operation & Maint Less Deprec	12.3%	$118,101
Historical Rate Base	1.0%	$9,329
Current Portion of Debt Service	100.0%	$0
5-Year Capital Plan-Net of Bond Proceeds	20.0%	$336,795
Recommended MINIMUM Reserves		$464,225

It is important to emphasize this is a recommended minimum cash reserve. Actual cash reserves may vary substantially above the minimum and is dependent of the life cycle of assets, future capital plan, rate setting policies, and debt policies.

The cash reserve calculation should be updated annually as part of the budget process. The discussion with the City Council should include a visual description of the past trends, current position and future projections.

Consent Agenda: On a motion by Council Member Teague, seconded by Vice Mayor Bowles, with a 5-0 vote, Council approved the following consent agenda:

BUDGET ADDITIONS FOR 11/10/15				
ORG	OBJECT	DESCRIPTION	DEBIT	CREDIT
FY16				
General Fund:				
01100908	480420	Misc Revenues - Donations/Senior Services		100
01100909	490801	Recovered Costs - Senior Services		2,172
01714212	506016	Senior Citizens - Program Supplies	100	
01714212	501300	Senior Citizens - Part-time Wages	1,375	
01714212	502100	Senior Citizens - Social Security	85	
01714212	502110	Senior Citizens - Medicare	20	
01714212	506049	Senior Citizens - Vehicle Fuels	692	
		Christmas Tea donation; Transportation Grant July, Aug. & Sept.		
Total General Fund:			**2,272**	**2,272**

Business from floor: Ural Harris, 217 Stewart Street – expressed concern about several department heads who plan to retire, he feels that the City should change the policy, requiring department heads to live in the City. Patrick H. Wright, 1201 Spruce Street – says that bulk mailings claiming that residents have won money are wrong and that those businesses only want to sell products.

Council comments: Council Member Stroud expressed condolences to the Louis Compton family. With Veterans Day tomorrow, Stroud shared that his first heros were his uncles and cousins who served in the military. Thank you to the veterans and families of those veterans who paid the ultimate sacrifice. Vice Mayor Bowles wanted to thank the Police Department for their first health fair today, especially the Policing Alternative Coalition and Piedmont Community Services. Mayor Turner wanted to thank Lawrence Mitchell for locating a grave of a World War I veteran at the end of Smith Road. There will be a ceremony to place a flag in his honor. He also thanked the Sheriff's department for cleaning around that grave site. Turner stated that Council would be drafting a letter to Nascar driver Jeff Gordon for everything he's done for racing and our area. Another letter will be sent to Nascar driver Joey Logano for funding the new roof at Citizens Against Family Violence. If the public has comments but they do not want to be televised, the Council is working on a method to honor this request before the next meeting. Bowles added that residents can contact a Council Member if they would like something added to the agenda.

City Manager comments: City Manager Towarnicki stated that the municipal building would be closed on Wednesday in honor of Veteran's Day. He said that there would be a Veteran's Day service at the former John D. Bassett school at 6:00pm on Wednesday. Towarnicki also shared that November 21 is the annual Christmas parade.

There being no further business, a motion was made by Council Member Teague to adjourn the meeting, seconded by Council Member Hodge with all council members in favor. The meeting adjourned at 9:46pm.

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Karen Roberts
Clerk of Council

Danny Turner
Mayor